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Supreme Court of the United States

October Term, 1977

No. 77-737

THE GOODYEAR TIRE & RUBBER COMPANY,

Petitioner,

v.

BIG O TIRE DEALERS, INC.,

Respondent.

REPLY BRIEF

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Preliminary Statement

Before replying to Big O's brief in opposition ("BOB") to Goodyear's petition for certiorari ("GP"), we wish to call to the Court's attention Big O's application to Justices Burger and White for an extension of its time to file a petition for certiorari from January 9 to March 10, 1978. Because Big O's petition would be based on the same opinions and factual record as Goodyear's, we believe that it would be appropriate for the Court to consider them together. We therefore respectfully request that the Court defer consideration of Goodyear's petition until it has considered Big O's petition.

As this reply will show, Big O's brief in opposition, stripped of its bombastic denunciations of Goodyear, does not even attempt to come to grips with the serious errors of law raised by Goodyear's petition. Instead, Big O attempts to trivialize the significance of these errors and to persuade the Court to ignore Goodyear's arguments

merely because they have already been rejected by the lower courts.[1] Big O's reliance on the "so-called 'two-court rule'" (BOB 4) is obviously misplaced since the issues raised by Goodyear's petition are fundamental errors of law rather than disputed issues of fact.

Scope of Rule 408—Settlement Discussions

The only legal argument Big O offers to justify the admission of statements made in compromise negotiations, despite the prohibition of Rule 408, is that they were offered to prove Goodyear's "knowledge, willful infringement and misconduct" rather than Goodyear's liability and therefore come within the exclusion in Rule 408 of evidence "offered for another purpose." (BOB 5-6) This use of the compromise negotiations, far from being a permissible "other purpose", was precisely what Rule 408 prohibits. It was solely on the basis of Goodyear's supposed "knowledge, willful infringement and misconduct" that Goodyear was found liable in this case. This use clearly has no resemblance to the illustrations of "another purpose" in Rule 408 itself ("proving bias or prejudice of a witness, negativing a contention of undue delay, or proving an effort to obstruct a criminal investigation or prosecution"), none of which reach the substantive liability issues.

[1] Big O's suggestion that the Court ignore the important issues raised by Goodyear's petition because Goodyear has "distorted the record and ignored proven facts" and omitted several irrelevant instructions from an appendix to the trial court's opinion does not deserve serious consideration (BOB 2). Except for one date error which Big O does not claim is significant (Big O's suggested "correction" is that Goodyear's trademark application, filed in December 1974, was withdrawn in the *preceding* February, BOB 20, No. 5), there is no inconsistency between Big O's quotations from our petition and the record. On the contrary, Big O is itself distorting Goodyear's position or the record or both. For example, the first "inconsistency" cited (BOB 18, No. 1) disappears when one realizes that the Big O dealers referred to are not owned by Big O. See also notes 2, 7 and 8 below.

If this "evidence" had been admitted under some exception to Rule 408, a clear limiting instruction would have been necessary. *Warner Construction Corp.* v. *City of Los Angeles,* 2 Cal. 3d 285, 466 P.2d 996, 85 Cal.Rptr. 444 (1970) (*en banc*). No such instruction was given here because, at Big O's urging, the trial court held that Rule 408 simply was not applicable.

Even assuming Big O had expressly offered the testimony for another purpose (which it did not) and the court had admitted it for that purpose only (which it did not) and so instructed the jury (which it did not), error would have been committed unless the probative value of the evidence outweighed its highly prejudicial and inflammatory nature:

> "Where evidence is generally inadmissible based upon strong public policy, it is admissible pursuant to an exception to the generality only if its probative value outweighs the policy considerations for its exclusion." *People* v. *Southern Pacific Transportation Co.,* 33 Cal. App. 3d 960, 969, 109 Cal.Rptr. 525, 531 (1973) (interpreting Cal.Code.Evid. § 1152 (West Supp. 1977), on which Rule 408 was patterned).

Judge Weinstein is in accord:

> "[C]are should be taken that an indiscriminate and mechanistic application of this 'exception' to Rule 408 does not result in undermining the rule's public policy objective. The almost unavoidable impact of the disclosure of such evidence is that the jury will consider the offer or agreement as evidence of a concession of liability. • • • The trial judge should weigh the need for such evidence against the potentiality of discouraging future settlement negotiations." 2 J. Weinstein & M. Berger, *Weinstein's Evidence* 408-27 (1977).

The prejudicial effect of this testimony cannot be in doubt. No judge or jury could have failed to realize, from Big O's use of this testimony, which is repeated in this Court (*e.g.*, BOB 4-5, 15-16), that it is the foundation of Big O's "proof" of Goodyear's liability.

Big O argues that, in distinguishing between compromise negotiations and business discussions, "a line must be drawn based upon the particular facts." (BOB 5). Instead of doing so, however, the courts below applied a rigid rule—that disputes cannot give rise to compromise negotiations until they have "crystallized to the point of threatened litigation"—which is not supported by Rule 408 and would defeat its purpose. Goodyear and Big O were not doing business with each other. Their only contacts resulted from this dispute, and their attempts to settle it were no more "business discussions" than attempts to settle during litigation would be.

Big O's assertion that "no prior authority has been found which draws the line between business discussions and compromise negotiations" (BOB 5) is simply wrong. The cases cited in note 9 to Goodyear's petition, which construe the California rule of evidence on which Rule 408 was based, do draw such a line and place statements made after "the parties had reached a stage of clear disagreement on the crucial question" on the inadmissible side of that line.

Finally, Big O's claim that Goodyear "introduced much of the very evidence it now claims should have been excluded" (BOB 4, 20-21) is both inaccurate and misleading. Goodyear objected to the admission of this evidence at the very beginning of the trial and was granted a continuing objection by the court. The limited exploration of this area by Goodyear's counsel was long after the court, over Goodyear's objection, had allowed extensive testimony

about the compromise negotiations to be introduced, knowing full well (as a result of the preliminary injunction hearing) what use Big O intended to make of it.[2]

Erroneous Jury Instructions

Goodyear argued in its petition that, under the rule of *Sunkist Growers, Inc.* v. *Winckler & Smith Citrus Products Co.*, 370 U.S. 19 (1962), the verdict cannot stand since the Court of Appeals found fundamental errors in the trial court's handling of each of the two alternative theories of liability (distinctiveness-descriptiveness and secondary meaning) on which the jury might have found Goodyear liable.[3] Big O's only response is to claim that these errors do not matter because "Big Foot" as applied to automobile tires is "*inherently* distinctive" (BOB 6) and that Goodyear waived its right to claim that it was not (BOB 6-8). The trial court submitted both theories of liability to the jury and expressly found that it could not determine on which one the jury relied (GP 30a); it also found that Goodyear had not waived its right to claim that Big Foot was descriptive (BOB 7, n. 3). Big O is now asking this Court to ignore the lower court's violation of *Sunkist* and instead to make *de novo* its own factual findings on the descriptiveness issue. This is clearly not a role which this Court should be asked

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[2] Big O's description of the compromise negotiations is wholly unreliable. For example, it flatly denies that Goodyear's September 20, 1974 letter expressed continued willingness to negotiate a compromise (BOB 20). Yet that letter explicitly referred to Goodyear's "willingness to reach a gentleman's agreement with you" and reported that it was "willing to continue discussions with you" (Joint Appendix 1891a).

[3] Big O does not dispute that this is what *Sunkist* holds. Rather, it purports to distinguish that decision on the patently irrelevant ground that it was an antitrust case rather than a trademark case (BOB 8).

to assume for the purpose of making clear error "harmless".[4]

The Extension Defense

Big O attempts to justify the trial court's instructions on the extension defense, despite their inconsistency with prior Federal case law, by referring to "a leading Second Circuit case [which] clearly establishes that there are no set, rigid guidelines for every extension case. *Polaroid Corp.* v. *Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir. 1961)" (BOB 11). The errors in the trial court's instructions here, however, included telling the jury that certain "set, rigid guidelines" had to be met before the extension defense would be available to Goodyear—thus putting itself in conflict with the very decision Big O cites.[5]

The trial court's error in shifting from Big O to Goodyear the burden of proof as to the validity of Goodyear's Federal trademark registration for snowmobile tracks was not nullified by its use of the word "presumption" (BOB 8-9, 22). That term is difficult enough for lawyers to understand; it is incomprehensible as an inconsistent instruction to lay jurors given no adequate explanation. The effect of the statutory presumptions to which Goodyear was en-

[4] Particularly since the trial court denied Big O's motion for judgment on the pleadings on this issue (Joint Appendix 16a, 341-47a) and both lower courts held that it was an issue for the jury.

[5] Big O attempts to distinguish the cases from other circuits cited by Goodyear on the ground that only in this case were the two products unrelated and confusion unlikely (BOB 11). This obviously begs the question, since it assumes, without proof, that the jury would have so concluded if they had been properly instructed. In the stipulation Big O quotes (BOB 11), Goodyear agreed only that the use of the names "Goodyear" and "Big O" on similar products was sufficient to prevent confusion as to source.

titled was to shift to Big O the burden of proving that Goodyear's registered trademark was invalid or had been abandoned. The trial court explicitly instructed the jury, however, that it had to "determine whether *Goodyear* has proven this affirmative defense of a right of expansion" (74a, emphasis added). Thus, the court's "explanation" of the effect of Goodyear's "presumption" was not merely inadequate, but wrong.

Compensatory Damages

The fundamental error in the compensatory damage award could not be more clearly stated than in Big O's denial "that compensatory damages must be limited to the net worth of a business" (BOB 12).[6] Big O urges that compensatory damages for injury to property rights should be measured by the expense to the wrongdoer (as some indication of the cost of repair) even where it vastly exceeds the value of the property injured. This is indeed the effect of the decisions below which, if upheld, would clearly deprive Goodyear of its property without due process of law.

In support of the "FTC corrective advertising policy", Big O cites only one case, *Warner-Lambert Co.* v. *Federal Trade Commission*, 562 F.2d 749, *rehearing denied*, 562 F.2d 768 (D.C. Cir. 1977), which has no relevance to any "FTC 25% rule" and was not cited by the courts below for that or any other purpose. Nor does that case support "the power of the Commission to require expenditure of $10,000,000 on corrective advertising on an involuntary

[6] Absent a showing of lost profits (which Big O did not even attempt) or special damages (of which the jury found none), compensatory damages for injury to property cannot exceed the value of the property injured. D. Dobbs, *Remedies* 143-47 (1973). The net worth (or total value) of a business is obviously greater than the value of any component of it.

basis" (BOB 14). Neither *Warner-Lambert* nor any other FTC advertising case has ever been construed by the FTC or any court as having any application to the award of damages to private plaintiffs. *Warner-Lambert* held only that the Federal Trade Commission Act permitted the FTC to order Warner-Lambert to cease deceptive advertising and to include a brief disclaimer in any future advertising of the particular product it might *choose* to make (up to the next $10,000,000 worth of such advertising). The case had nothing to do with anyone else's advertising, or with any award of damages. Contrary to Big O's argument, Warner-Lambert was not required to expend any amount for advertising, corrective or otherwise.

Punitive Damages

That portion of Goodyear's petition which deals with the punitive damage award asserts that it was fundamentally unfair to permit such an award on the basis of novel theories of liability, particularly where the trial court refused to charge that good faith reliance on a claim of right would be a defense to such a damage award.[7] Big O does not dispute that the theories of liability which the trial court submitted to the jury were novel; indeed it characterizes them as illustrations of how "highly adaptable" the law can be (BOB 15). This places squarely

[7] Big O attempts to justify the trial court's refusal on the irrelevant ground that Big O had made unsuccessful efforts "at trial" "to discover the legal advice upon which [Goodyear's] baseless assertions of good faith reliance rests" (BOB 19). Goodyear's witnesses repeatedly testified during the trial (without objection or any attempt at cross-examination by Big O) that their decision to use "Bigfoot" was made after consulting counsel. It is not true, however, that Big O made any effort "at trial" to discover what Goodyear's legal advice had been. The "Trial Transcript" to which it cites was in fact a transcript of the preliminary injunction hearing, and Big O never even asked the court for a ruling as to whether it was entitled to pretrial discovery of that advice.

before this Court the important issue of whether a defendant which in good faith misinterprets the law or fails to anticipate changes in it can be subjected on that basis to an enormous punitive damage award.[8]

Trademark Disparagement

Similarly, in dealing with Goodyear's claim that it had insufficient notice of the novel tort of "trademark disparagement", Big O relies exclusively on the finding of the courts below that this issue was tried by the "implied consent" of the parties despite the fact that the elements of this new tort did not take their final form until the opinion of the Court of Appeals was published. Big O's bootstrap reliance on the decisions below gives them no support whatever (BOB 17).

[8] The award of punitive damages was even more shocking because, as Goodyear correctly stated (GP 11), the trial court refused to charge that Colorado law required proof beyond a reasonable doubt of the substantive offense (here infringement and disparagement), as well as of the accompanying "circumstances of fraud, malice, [etc.]", to support an award of punitive damages. Big O purports to find Goodyear's statement that the trial court rejected this distinction (which it did, Joint Appendix 1453a) "simply incredible" (BOB 21).

CONCLUSION

Big O's brief in opposition only underlines the importance of the issues raised in Goodyear's petition. The writ should be granted so that the Court may consider them.

Respectfully submitted,

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